

Expense	\$ (272,953)	\$ (80,016)	\$ 47,224
Subtotal	<u>(272,953)</u>	<u>(80,016)</u>	<u>47,224</u>
Deferred tax assets (liabilities):			
Sales cut-off difference derived from Value Added Tax reporting system to calculate PRC Corporation Income Tax in accordance with the			
PRC State Administration of Taxation	290,850	(26,226)	(33,518)
Other	<u>(2,392,821)</u>	<u>(124,622)</u>	<u>0</u>
Subtotal	<u>(2,101,971)</u>	<u>(150,848)</u>	<u>(33,518)</u>
Total deferred tax assets (liabilities) – current portion			
	<u>(2,374,924)</u>	<u>(230,864)</u>	<u>13,706</u>
Non-current portion:			
Deferred tax assets (liabilities):			
Depreciation	(353,115)	(551,697)	81,076
Loss carried forward	7,645,386	3,025,997	3,992,906
Valuation allowance	<u>(7,645,386)</u>	<u>(3,025,997)</u>	<u>(3,992,906)</u>
Subtotal	<u>(353,115)</u>	<u>(551,697)</u>	<u>81,076</u>
Deferred tax liabilities:			
Accumulated other comprehensive gain	<u>(1,240,467)</u>	<u>(1,715,028)</u>	<u>(1,009,477)</u>
Subtotal	<u>(1,240,467)</u>	<u>(1,715,028)</u>	<u>(1,009,477)</u>
Total deferred tax assets – non-current portion			
	<u>(1,593,582)</u>	<u>(2,266,725)</u>	<u>(928,401)</u>
Net deferred tax assets (liabilities)	<u>\$ (3,968,506)</u>	<u>\$ (2,497,589)</u>	<u>\$ (914,695)</u>

### (b) Tax Holiday Effect

For the years ended December 31, 2015, 2014 and 2013, the PRC corporate income tax rate was 25%. Certain subsidiaries of the Company are entitled to tax exemptions (tax holidays) for the years ended December 31, 2015, 2014 and 2013.

The combined effects of the income tax expense exemptions and reductions available to the Company for the years ended December 31, 2015, 2014 and 2013 are as follows:

	For the Years Ended December 31, (Unaudited)		
	2015	2014	2013
Tax benefit (holiday) credit	\$ 912,548	\$ 611,672	\$ 1,378,429
Basic net income per share effect	\$ 0.020	\$ 0.010	\$ 0.040

78. The 2015 10-K also provided information regarding the Company's construction-in-progress accounting:

#### NOTE 16 - CONSTRUCTION-IN-PROGRESS

As of December 31, 2015, a total amount of advances to a supplier of RMB 353,000,000, or \$54,368,753, made by Kandi Hainan to Nanjing Shangtong Auto Technologies Co., Ltd. ("Nanjing Shangtong") for equipment purchases was included in Construction in Process ("CIP"). None of the CIP was transferred to property, plant and equipment as of December 31, 2015.

Because the government of Hainan Province is enforcing a new plan to centralize the manufacturing in designated industry park, the Wanning facility will be reallocated from Wanning City to Haikou City. In addition, all related expenses and assets disposal caused by the relocation were compensated by the local government.

No depreciation is provided for CIP until such time as the facility is completed and placed into operation.

The contractual obligation under CIP of the Company as of December 31, 2015 is as follow:

	Total CIP as of December 31, 2015	Contracted but not provided for	Total contract amount
Kandi Hainan facility	\$ 54,368,753	\$ 6,468,803	\$ 60,837,556
Total	<u>\$ 54,368,753</u>	<u>\$ 6,468,803</u>	<u>\$ 60,837,556</u>

As of December 31, 2015 and 2014, the Company had CIP amounting to \$54,368,753 and \$58,510,051, respectively.

No interest expense has been capitalized for CIP for the years ended December 31, 2015, 2014 and 2013, respectively.

79. The 2015-K described the Company's interest and investment in the JV Company as follows:

NOTE 24 – SUMMARIZED INFORMATION OF INVESTMENT IN THE JV COMPANY

In March 2013, pursuant to a joint venture agreement (the “JV Agreement”) entered into between Kandi Vehicles and Shanghai Maple Guorun Automobile Co., Ltd. (“Shanghai Guorun”), a 99%-owned subsidiary of Geely Automobile Holdings Ltd. (“Geely”), the parties established Zhejiang Kandi Electric Vehicles Co., Ltd. (the “JV Company”) to develop, manufacture and sell electric vehicles (“EVs”) and related auto parts. Each of Kandi Vehicles and Shanghai Guorun has 50% ownership interest in the JV Company. In the fourth quarter of 2013, Kandi Vehicles entered into an ownership transfer agreement with the JV Company pursuant to which Kandi Vehicles transferred 100% of its ownership in Kandi Changxing to the JV Company. As a result, the Company indirectly has 50% economic interest in Kandi Changxing through its 50% ownership interest in the JV Company after this transfer. In November 2013, Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. (“Kandi Jinhua”) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jinhua, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in Kandi Jinhua. In November 2013, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. (“JiHeKang”) was formed by the JV Company. The JV Company has 100% ownership interest in JiHeKang, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in JiHeKang. In December 2013, the JV Company entered into an ownership transfer agreement with Shanghai Guorun pursuant to which the JV Company acquired 100% ownership of Kandi Electric Vehicles (Shanghai) Co., Ltd. (“Kandi Shanghai”). As a result, Kandi Shanghai is a wholly-owned subsidiary of the JV Company, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in Kandi Shanghai. In January 2014, Zhejiang Kandi Electric Vehicles Jiangsu Co., Ltd. (“Kandi Jiangsu”) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jiangsu, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in Kandi Jiangsu. In addition, In July 2013, Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the “Service Company”) was formed. The JV Company has a 19% ownership interest in the Service Company. In March 2014, the JV Company changed its name to Kandi Electric Vehicles Group Co., Ltd. In August 2015, the JV Company transferred its shares of the Service Company to Shanghai Guorun and Kandi Vehicles for 9.5% respectively. As the result, the JV Company no longer has any ownership of the Service Company since the transfer. In November 2015, Hangzhou Puma Investment Management Co., Ltd. (“Puma Investment”) was formed by the JV Company. The JV Company has 50% ownership interest in Puma Investment and the Company, indirectly through its 50% ownership interest in the JV Company, has 25% economic interest in Puma Investment. In November 2015, Hangzhou JiHeKang Electric Vehicle Service Co., Ltd. (“JiHeKang Service Company”) was formed by the JV Company. The JV Company has 100% ownership interest in JiHeKang Service Company and the Company, indirectly through its 50%

ownership interest in the JV Company, has 50% economic interest in JiHeKang Service Company.

As of the year ended December 31, 2015, the JV Company consolidated the following entities on its financial statements: (1) 100% interest in Kandi Changxing; (2) 100% interest in Kandi Jinhua; (3) 100% interest in JiHeKang; (4) 100% interest in Kandi Shanghai; and (5) 100% interest in Kandi Jiangsu; (6) 100% interest in JiHeKang Service; and (7) 50% interest in Puma Investment.

The Company accounted for its investments in the JV Company under the equity method of accounting as the Company has 50% ownership interest in the JV Company. Therefore, the Company's consolidated net income for the year Ended December 31, 2015 and 2014 included equity income from the JV Company during such periods.

The combined results of operations and financial position of the JV Company are summarized below:

	Years ended December 31,		
	2015	2014	2013
Condensed income statement information:			
Net sales	\$ 362,715,996	\$ 215,537,203	\$ 15,212,347
Gross income	<u>59,635,845</u>	<u>41,889,144</u>	<u>(1,279,914)</u>
% of net sales	16.4%	19.4%	-8.4%
Net income	<u>23,323,128</u>	<u>7,526,164</u>	<u>(3,020,756)</u>
% of net sales	6.4%	3.5%	-19.9%
Company's equity in net income of JV	<u>\$ 11,661,564</u>	<u>\$ 3,763,082</u>	<u>\$ (1,510,378)</u>
	Three months ended December 31,		
	2015	2014	2013
Condensed income statement information:			
Net sales	\$ 164,750,714	\$ 88,773,410	\$ 15,212,347
Gross income	<u>27,677,165</u>	<u>27,944,246</u>	<u>(1,279,914)</u>
% of net sales	16.8%	31.5%	-8.4%
Net income	<u>19,322,347</u>	<u>743,892</u>	<u>(2,780,723)</u>
% of net sales	11.7%	0.8%	-18.3%
Company's equity in net income of JV	<u>\$ 9,661,173</u>	<u>\$ 371,946</u>	<u>\$ (1,390,362)</u>
	December 31, 2015	December 31, 2014	
Condensed balance sheet information:			
Current assets	\$ 455,368,595	\$ 262,543,256	
Noncurrent assets	<u>191,145,583</u>	<u>194,229,114</u>	
Total assets	<u>\$ 646,514,178</u>	<u>\$ 456,772,370</u>	
Current liabilities	429,487,683	280,779,432	
Noncurrent liabilities	<u>36,348,514</u>	<u>9,006,787</u>	
Equity	<u>180,677,981</u>	<u>166,986,151</u>	
Total liabilities and equity	<u>\$ 646,514,178</u>	<u>\$ 456,772,370</u>	

For the year ended December 31, 2015, the JV Company's revenues were \$362,715,996, an increase of 68.28% from \$215,537,203 for the year ended December 31, 2014. For the three months ended December 31, 2015, the JV Company's revenues were \$164,750,714, an increase of 85.59% from \$88,773,410 for the three months ended December 31, 2014. The revenue was primarily derived from the sales of EV products in the PRC with a total of 24,220 units sold during the year 2015, among which, a total of 12,100 units of EV products were sold during the three months ended December 31, 2015. The growth of sales of EV products was mainly driven by the demand from the MPT program. For the year ended December 31, 2015, the JV Company recorded a net profit of \$23,323,128 as compared to \$7,526,164 for the year ended December 31, 2014. For the three months ended December 31, 2015, the JV Company recorded a net profit of \$19,322,347 as compared to \$743,892 for the three months ended December 31, 2014. As the Company only has 50% ownership interest in the JV Company and accounted for its investments in the JV Company under the equity method of accounting, the Company didn't consolidate the JV Company's financial results but included equity income from the JV Company during such periods, which were a share of profit of \$11,661,564 and \$3,763,082 for the years ended December 31, 2015 and 2014, respectively.

Note: The following table illustrates the captions used in the Company's Income Statements for its equity basis investments in the JV Company.

Changes in the Company's equity method investment in JV Company for the year ended December 31, 2015 and 2014 are as follows:

	Years ended December 31,	
	2015	2014
Investment in JV Company, beginning of the period,	\$ 83,309,095	\$ 79,331,930
Share of profit	11,661,564	3,763,082
Intercompany transaction elimination	(1,135)	(184,138)
Year 2014 unrealized profit realized	181,426	911,322
Exchange difference	(4,813,051)	(513,101)
Investment in JV Company, end of the period	\$ 90,337,899	\$ 83,309,095

Sales to the Company's customers, the JV Company and its subsidiaries, for the year ended December 31, 2015 were \$152,247,082 or 76% of the Company's total revenue for the year, an increase of 29.3% of the sales to the JV Company from the previous year. Sales to the JV Company and its subsidiaries for the three months ended December 31, 2015 were \$45,787,956 or 78% of total revenue for that three months period. The sales to the JV Company and its subsidiaries were primarily the sales of battery packs, body parts, EV drive motors, EV controllers, air conditioning units and other auto parts, the breakdown of the sales to the JV Company and its [subsidiaries] as follows:

<b>Years ended</b>			
<b>December 31,</b>			
	2015		2014
JV	\$ 67,729,570	\$ -	
Company			
Kandi	44,019,899		65,342,342
Changxing			
Kandi	39,708,548		39,412,740
Shanghai			
Kandi	789,065		12,952,070
Jinhua			
Total sales \$ to JV	152,247,082	\$	117,707,152

The following tables summarize the effects of transactions including sales and purchases with JV:

	<b>Years ended</b>	
	<b>December 31,</b>	2014
	2015	2014
Sales to JV	\$ 152,247,082	\$ 117,707,152
Purchase from JV	\$ 55,179	\$ 356,609

As of the years ended 2015 and 2014, the amount due from the JV Company and its [subsidiaries], net was \$76,172,471 and \$51,450,612, respectively, of which the majority was the balances with the JV Company, Kandi Jinhua, Kandi Changxing and Kandi Shanghai. The breakdown was as below:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Kandi Shanghai	\$ (4,488,379)	\$ 6,978,618
Kandi Changxing	3,249,445	7,359,202
Kandi Jinhua	6,218,177	12,736,420
Kandi Jiangsu	11,453	-
JV Company	71,181,775	24,376,372
Consolidated JV	<u>\$ 76,172,471</u>	<u>\$ 51,450,612</u>

Within the receivables from the JV Company, the \$23,102,869 was a one-year entrusted loan that Kandi Vehicle lent to the JV Company from December 16, 2015 to June 15, 2016 carrying an annual interest rate determined by using the People's Bank of China floating benchmark lending rate on the date of withdraw plus 5% of that rate. The rate will not be adjusted after the withdraw during the lending period, which was 8.7%. The loan was organized by Bank of Communications Hangzhou Zhongan Branch as the agent bank between Kandi Vehicle and the JV Company. Entrusted loans are commonly found in China, where direct borrowing and lending between commercial enterprises are restricted.

80. The 2015 10-K was signed by defendants Xiaoming and Wang and contained